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EDUCATION FOR BUSINESS

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Much has been written in recent years about the need for Colleges of Business Administration to examine critically the programs designed to educate young men and young women in the principles and practices of business. The construction of any educational program must be developed through the proper blending of a student body, a curriculum and a faculty. Any progress toward better education for business must incorporate development in each of these three areas.

The faculty and the administration of the Robert A. Johnston College of Business Administration at Marquette University have, during the past several years, been directing their efforts toward improving the quality of the education of those young men and women who are preparing for careers in business. In order to reach the objective of an improved quality of eduation, emphasis has been placed on the selection of the type of student who is permitted to enter the college at both the undergraduate and the graduate level. Perhaps more important than the selection of students are the steps that have been taken to cause those students presently enrolled to achieve at their maximum capacity. In the development of an academic program it is also necessary to establish a framework of courses that constitute the essential elements of a sound education and to make possible the enrichment of these essentials by providing opportunity for study in depth in at least one area and to provide for challenging the superior student. Students need guidance in achieving an education from a faculty that is constantly alert to new problems facing American business, to new developments in the solution of those problems, to improved methods of teaching; and that contributes to the solution of business problems through research, writing, and consulting.

The College of Business Administration Student

The quality of an educational program can never rise above the quality of the students in the program. A college must, therefore, look at its student body, both present and future, as the foundation on which it must build its educational program.

Colleges of Business Administration, if they are to produce qualified young men and women, must select students that have the ability to cope with the problems of business. Each student admitted should reflect ability in three areas. He must have the potential of above-average over-all mental ability; he must be able to think logically and clearly; and he must have the ability to communicate ideas to others.

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Students admitted to a College of Business Administration ought to have achieved successfully in high school to rank in the upper half of the graduating class. Experience has shown that there are differences in the standards of achievement among high schools. Colleges of Business Administration ought to require each applicant to submit to a battery of aptitude tests that further measure the student's potential for academic achievement. The experience of this college has been that success in courses in mathematics in high school, along with an aptitude for mathematical reasoning as reflected on tests, is a good measure of potential achievement in a College of Business Administration. There has recently developed a trend toward placing greater emphasis on evaluating a student's past achievement in English and other courses that reflect his ability to communicate ideas. Many schools are also giving greater attention to those scores on aptitude tests which measure the verbal ability of a student. Businessmen need the ability to think clearly and logically and to communicate ideas to others. Colleges of Business Administration, therefore, have an obligation to select students that have the ability to develop in these two areas.

Colleges must also take steps that will cause each student to achieve up to his capacity. It is important not only to make certain that students in college make use of all of their mental ability but also to develop in them the habit of maximizing their productivity.

A well-planned counselling program is essential to the achievement of these goals. In September of 1961, the Marquette University College of Business Administration appointed two faculty members -- a Jesuit and a layman -- to develop a counselling service for all incoming freshmen. The Jesuit was responsible for holding a conference with each freshman with the objective of aiding in personal adjustment to college. The layman had the responsibility of counselling with each freshman on his academic achievements. In addition to the initial conference, additional conferences were held with those who had not achieved to capacity at the end of the first four weeks, at the end of mid-semester, and at the end of the first semester. During the second semester, group counselling conferences were held with all freshmen to aid them in projecting their academic program through the sophomore year. The results of this counselling program were two-fold. Approximately 50 per cent of the freshmen admitted with minimum qualifications achieved at a rate above average and were therefore removed from probationary status at the end of the year. The balance of those with minimum qualifications and who were unable to achieve satisfactory college work were advised to withdraw from college. The counselling and testing that had been carried on made it possible to advise these students of areas in which they could achieve satisfactorily, or of remedial work which they might carry out in order to prepare for a return to college at a later date.

The work of counselling students other than freshmen became the responsibility of the Assistant to the Dean, with the aid of a selected group of faculty members. The emphasis in all counselling was on achieving to capacity. As with the freshman, about 50 per cent of those who were achieving below average at the beginning of the year improved.

In many cases, the achievement was raised to above a "C" average. In addition to the work done with marginal students, the emphasis on achievement permeated the entire student body to the point that, at the end of the 1960 - 1961 school year, 12 per cent of the students in the College of Business Administration had achieved a "B" average or above. This was about twice the number that had achieved this goal in the past. The more careful selection of students, the development of improved counselling services and the constant emphasis on achievement to capacity appears to be a program that will produce an improved quality among the student body in a College of Business Administration.

The Curriculum

Marquette, as a Catholic University, is dedicated to the pursuit of total truth, human and divine, drawing upon the revelations of the past and the discoveries of reason of the present, to enable man to understand himself in his full complexity and to perfect his intellect and will in terms of intellectual and moral virtues. The College of Business Administration, as a part of Marquette University, is committed to the same basic objectives of education. In addition, it provides an education which develops in students an understanding of business principles and competence in business management.

The curriculum of a College of Business Administration needs to be so constructed that it can serve the needs of three types of students. A large portion of the student body needs to have the opportunity to develop their abilities and skills in order to become productive workers in an industrial enterprise. A second group of students with somewhat broader talents should be permitted to establish a skill that can make them productive and, in addition, the foundation should be laid that will provide for them a broad understanding of the principles of management so that, as they gain experience, they are qualified to assume positions at the second and third levels of management. Finally, for a relatively limited group of superior students, provision should be made to challenge them into maximum development in research and the solution of management problems.

The Marquette University College of Business Administration has launched a four-year program of curriculum development. The general objectives to be attained in the new curriculum are:

1. To increase the opportunities for general education and to distribute these opportunities throughout the entire four-year period in the undergraduate education of a business student.

2. To place a greater amount of emphasis on the general and fundamental education for business in order to acquaint all students with the problems of all areas of management.

3. To reduce the number of highly specialized courses offered in each of the individual fields of study, in order to prevent the development of a narrowly educated person.

4. To provide opportunity for the introduction of independent study seminars in order to challenge the ability of the superior student and to provide for experience in research and problem solution.

The General Education of the College of Business Administration Student

Historically, Colleges of Business have designed their curriculum to place emphasis on general education during the first two years of a student's academic career. In addition to concentrating the general education courses during the first two years, many schools also set up special sections of these courses for business students only. A student entering a College of Business Administration with the objective of preparing himself for a business career was frequently faced with a totally non-business program in his freshman year and only a limited opportunity to study business courses in his sophomore year. At the least, this produced disappointment; it often resulted in lack of motivation for achievement and in many cases students actually rebelled against this program. In the proposed curriculum of the Marquette University College of Business Administration, certain basic general education courses will be retained in the early years and added opportunities for general education courses will be provided during the junior and senior years after the student has had an opportunity to recognize the value of a broad education. Specifically, each College of Business student should have a rigid course in Rhetoric and Composition in the freshman year. He should also be given an opportunity to improve his ability to communicate orally by having at least one course in speech. Beyond this, during the sophomore, junior and senior years he should have an opportunity to experience an appreciation of literature and to take courses in advanced writing and speech. The courses he would take should be the result of a decision by the student and his advisor on his needs for growth in the area of communications. Mathematics has come to be such a tool in business that it should no longer be classed in the area of general education. The type of mathematics that is needed is an understanding of fundamental algebra and its advanced application. The curriculum should be so designed that the student may start at any point in the mathematics sequence. The point of starting should be determined by his prior education, and he should be permitted to continue through any sequence that tends to aid in his final objective in education. Many schools establish a requirement of a science. This science is frequently established as a survey course. It is proposed that College of Business Administration students should be permitted to elect from either a science, a language, or an additional year of mathematics. There are many avenues to education. Some students benefit best from an experience in a laboratory science, others gain more from an opportunity to study a language. And still others have the need for additional mathematics.

In order to make certain that a wise choice is made the language, science, or mathematics opportunities should be deferred until the student and his advisor have an opportunity to become well enough acquainted so that the choice contributes most to his educational experience. Each educational program should contain an opportunity for the student to get acquainted with the social environment in which people live. This can be

approached in many ways. For the College of Business student, it is suggested that current economic problems be examined and traced back to their historical origin. Beyond this initial experience with history, each student should have an opportunity later in his undergraduate career to study in the field of political science, sociology, psychology, philosophy, theology, and other areas that help him to understand his environment and the people with whom he lives. A College of Business Administration curriculum should be so designed that opportunities for general education are available throughout the entire undergraduate curriculum. Enough flexibility should be introduced to make it possible for the student and his advisor jointly to determine those areas which can best contribute to the growth of the student.

Education in the Principles of Management

The early part of a College of Business Administration student's education should be directed to the development of those tools which management uses in the operation of a business. The general education portion of the curriculum provides the student with the tools of communication and the tools of mathematics. Accounting and Economics are also considered basic tools for management decision-making. The Principles of Accounting is a very tangible type of course. It is proposed that the fundamental accounting course be introduced in the freshman year. It is a course that can be taught in a way that helps to develop good study habits; it provides an initial experience in problem solving and in the use of analysis techniques; and it provides the motivation of a course in business in the student's freshman year. Economics ought to be introduced at the sophomore level. It is also proposed that a course in statistics be introduced at the sophomore level. During the 1961-1962 school year, Marquette University College of Business Administration is proposing to introduce on an experimental basis a course designed to give freshmen an experience in simple case analysis, decision-making and report-writing. The objective of this program is not to face the student with the necessity of making profound decisions, but with establishing through this course the tools and techniques to be used in decision-making. A group of simple cases is to be selected. The first step will be to help the student learn how to examine a problem and select out of it the points that need to be given attention in its final solution. Emphasis will then be placed on the methods to be used in securing sound facts and principles on which decisions are to be made. Finally, a short report will be required to provide an experience in communicating to others the decision that is made and the reasons for arriving at this decision. The principal reason for the introduction of such a course at the freshman level is to develop a uniform background for appoaching problem-solving and to prepare the student as he enters more advanced courses with a technique that will aid him in arriving at decisions that are based on a logical investigation.

After the basic tools have been established during the freshman and sophomore years, it is proposed that each student have a year's experience in the study of the various fields of management. Each department should develop a year-long course that starts at the point of assuming that a

student knows the principles of accounting, of economics, of statistics, and of problem-solving. The course should then carry on from that point. Every effort should be made to eliminate the necessity of reteaching what should have occurred in prior courses. The first semester in the departmental course should establish the fundamental concepts in the area. The second semester should apply these concepts to an understanding of the management problems of a business. A student interested in the study of accounting needs to know more than accounting. He needs to know the principles of the management of industry, of the management of personnel, he must have a concept of the use of such techniques as time-study, production control, job evaluation, etc. Through preparation of one-year long courses for each area, rather than the approach through a group of individual courses, much duplication can be avoided and the time gained can serve to advance the student further into the field. In addition to year-long courses in marketing, management, and finance, an advanced course in economic analysis should be introduced at the junior year. Each College of Business Administration student should have the opportunity during his undergraduate study of understanding the broad problems of management in every area.

Educating for a Marketable Skill

Students graduating from a College of Business Administration need to understand that their education is only a starting point. They must be able, on their first job, to become a productive person. Undergraduate colleges do not train managers and vice presidents; they educate young men and young women to have that potential after having developed some experience. In the design of an educational program to provide marketable skills, two objectives should be kept in mind. Each student should have the experience of studying in depth in some field. This is likely to be the field of his interest. This is not the important point. The real value is the opportunity to explore in depth any one of the fields of management. It is here that a college has the opportunity to provide for different grades of achievement. Each College of Business Administration ought to provide for a series of technical courses designed to provide the average person with a competent productive skill. This type of person should be so educated that he can be productive in a job and so that he can rise through his field to a point of supervision in his area. It is unwise to try to develop average people for broad management responsibility. They are unlikely to be able to achieve management levels and unless thoroughly trained, they will not be happy or productive in their field.

Each person, regardless of ability, must expect to enter industry as a productive person. The most able student in the college should be given an opportunity to develop a productive skill. Those students who have greater than average ability ought to be permitted and encouraged to add to their study of a productive skill an understanding of the interrelationships between departments. The better-than-average student is the one who will most likely, as he gains experience, be offered broader responsibilities. He will not gain this opportunity unless he has been productive in his initial jobs. The college has the responsibility, however, of so preparing this person that when opportunity presents itself he has

the needed understanding to accept responsibilities at the lower levels of management. The program should be so flexible for this type of individual that, after establishing a marketable skill, he can cross into allied fields at advanced levels. Finally, in every college there is a small group of students with superior ability. Once again, let me point out that, regardless of ability, each person entering business needs a productive skill. The superior student can likely achieve this productive skill in a shorter period of time. Therefore, opportunities should be provided that make it possible for such a student to move through his skill development more rapidly. A major portion of his time ought to be spent in a seminar, an independent-study type of program in which he can develop his talents for research and advanced techniques in problem solving.

The objective of any College of Business Administration curriculum should, therefore, be to develop a well educated young man or young woman to become a productive member of society; to be able to achieve on his job up to capacity; and to provide the foundation for his future growth. This can be accomplished by providing a curriculum that is substantial in its basic principles and provides the flexibility necessary so that the student and his advisor can direct his education toward his maximum achievement.

The College of Business Administration Faculty

In the initial paragraphs of this article, it was pointed out that students in a College of Business Administration need guidance in achieving their education from a faculty that is alert to new problems facing American business, to new developments in the solution of those problems, and to improved methods of teaching; and a faculty that is able to contribute to the solution of business problems through research, writing, and consultation. A major problem facing Colleges of Business Administration is that the development of new faculty members is not keeping pace with the growth in student population. Colleges must, therefore, introduce development programs that will improve the caliber of the present staff and make it possible to reach out into industry for men of experience who can be trained as teachers. There are at least three avenues in which the faculty of a college can be developed. During the past two years, the faculty of the College of Business Administration at Marquette University has been participating in a self-development program. About one third of the faculty participated in a two-year program designed to improve their background in mathematics and in learning how mathematics can be applied to decision-making courses in business. This was entirely a voluntary program. Members of the faculty met once a week for an afternoon session under the direction of a member of the Department of Mathematics. As a result of this experience, several members of the faculty are now introducing the use of mathematics into courses in business. This must necessarily be limited at this time because of the lack of mathematical preparation on the part of the student body. With the introduction of additional mathematics in the new curriculum, it is expected that more and more courses will introduce the use of mathematics as a part of the analysis program. The entire faculty of the college

participated in a series of curriculum seminars. Two years ago these seminars were directed toward an overview of the objectives of education for business. In the past year, each department took the responsibility of presenting a seminar designed to acquaint all members of the faculty with the courses being taught in the department; with the methods of teaching used in each course; and with some of the problems that were faced in presenting each course. Following the presentation, a discussion was conducted with the objective of attempting to determine how other departments could better design courses to prepare a foundation on which to build. For example, the finance department would point out the kinds of information they needed in the teaching of corporation finance and investments that could be incorporated in courses in accounting. These seminars provided a good deal of the foundation that was necessary to the recommendations for changes in the curriculum. There are undoubtedly other areas in which the faculty can cooperatively work toward its own self-development.

In the last five years, various foundations have taken an interest in the development of faculty for Colleges of Business Administration. Each summer opportunities are provided for faculty members to attend seminars directed toward new methods of teaching, new developments in management techniques, new developments in curriculum construction and refresher courses in academic content. Most of these programs are made available to colleges at either no cost or the cost of transportation to and from the point of the seminar. During the past five years, about half of the faculty members from this college have participated in one or more of these programs. Several foundations are now providing funds to finance junior members of the faculty during a period of study toward their Ph.D. Many colleges and universities provide a loan program which makes funds available to members of the faculty who wish to take a leave of absence in order to complete work for their doctoral degree. Most such loan funds carry a stipulation that writes off up to 20 per cent of the loan for each year that the benefactor returns to the university and remains in teaching. Many opportunities have been established that make possible the self-development of faculty members.

A source of new faculty members has recently been developing quite rapidly. Many men who have had experience in business and who are at or near retirement age are becoming interested in entering the teaching field after retirement. While most of these men do not have their doctoral degree, they have much to contribute from the experiences they have gained in management positions in industry. About 75 per cent of the members of the faculty of the College of Business Administration at Marquette University are men who have had many years of experience in business which supplements their educational background. Recently, a man who is liquidating his interest in a manufacturing company and retiring as its president arranged to spend a year of study at the University in order to obtain his M.B.A. degree and then enter the field of teaching, either at this school or at some other University. Colleges of Business Administration are going to need to make greater use of men with industrial experience to augment the faculty. Certain industrial organizations are also cooperating with universities by granting leaves of

absence to members of their management staff, permitting them to teach in colleges for a period of one year.

Faculty members in the Colleges of Business Administration need to be encouraged in the areas of doing research and writing. There are a number of ways in which colleges can provide aids to members of the faculty so that they might devote time and effort to doing research and writing. The College of Business Administration of Marquette University has established a Center for Business Services whose primary objective is to serve as a clearing house and as a service center for faculty who wish to carry on research. At relatively little cost to a university is the practice of providing secretarial help on a part-time basis to those individuals and departments that are carrying on research and preparing publications. During the past year, five members of the faculty of this college have either authored or co-authored books. At the present time, six additional members of the faculty are in the stage of preparing manuscripts for publication. The Center for Business Services also serves as a clearing house for bringing faculty and industrial enterprises together when there is a desire on the part of the industry to have training programs prepared or to have faculty members made available for consultation on management problems. Each experience in research, in consulting on management problems and in the preparation of training programs aids the faculty member by providing illustrations that are useful in his teaching.

Conclusion

The problems of management and operation of a business enterprise are growing more complex. New methods in their solution are constantly being developed. It is the responsibility of Colleges of Business Administration to keep pace with the demands that will be placed on its graduates as they take their responsibility as employees, as supervisors, as managers and as executives of the future. Colleges of Business Administration must seek to provide education for those young men and young women who have the qualifications to accept the responsibility that will become theirs. We must become an increasingly productive society and this can be achieved if each individual learns to be productive to the extent of his capacity. This requires careful counselling and guidance of college students during the formative stage of their careers. The business curricula in Colleges of Business must be designed with the flexibility to meet the individual needs of the students in the college and to meet the ever changing problems of business and industry. Each college has a responsibility for exerting leadership in providing opportunities for its faculty to develop and keep pace with the demands of the business world.

TRENDS IN CONSUMER CREDIT

M. S. Szymczak*

The Federal Reserve System has three principal responsibilities -- bank supervision, fiscal agency functions, and monetary policy. Each of these covers a wide field of interest and a large area of activity. All of them have a relationship to credit, especially monetary policy. All of them require much research, for which the Board has a well-qualified staff.

Nothing is more illustrative of the changes in the attitude toward consumer instalment credit and the dynamic character of the industry than the rapid increase in commercial bank activity in the field. It is hard to realize now that commercial bank instalment loans were negligible until the late 1920's and that not until about 1935 did banks hold as much as 10 per cent of all instalment credit. By the end of the 1930's, however, the bank share had risen to about 25 per cent, and during the postwar period banks have consistently held just under 40 per cent of a growing volume of instalment credit. All but about 175 of the 13,000 insured commercial banks now make instalment loans. Instalment credit constitutes about 8 per cent of the total loans and investments of all banks, and the proportion exceeds 10 per cent for banks with total loans and investments of $5,000,000 to $100,000,000. It is not necessary to emphasize how actively banks have competed for consumer loans over the past 30 years.

Developments in Consumer Credit, 1930-1955

The rapid growth in commercial bank activity in the consumer credit market over the past several decades has reflected both the changing attitude toward instalment credit generally and the ready availability of reserve funds over a substantial part of the period. As expenditures for automobiles and household appliances formed an increasingly important part of a rising level of consumer expenditures, more and more consumers made use of credit to finance the purchase of such items. It was recognized that these were large-ticket durable items for which expenditures were "lumpy," and which would provide services over a period of time. There was increasing acceptance of the appropriateness of consumers' financing purchases of these items by borrowing, and repaying their indebtedness as they used them. It was observed that borrowers for the purchase of these items are not the impecunious, but are predominantly young, middle-income families who can look forward to increasing incomes over future decades. Moreover, it was noted that these items could be repossessed and, at least in the case of automobiles, resold in an active market.

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* Mr. Szymczak is a Member of the Board of Governors of the Federal Reserve System of the United States. This article is drawn from an address to the Institute on Consumer Finance presented at Marquette University on June 13, 1961.

The rapid increase of bank activity in consumer credit reflected also the availability of a large volume of excess reserves during the 1930's and of Government securities that could be sold at pegged prices in the early postwar period. While seeking outlets for loanable funds, banks made a number of discoveries about consumer loans. First, they learned that consumer loans were sound loans. Even during the depressed 1930's, consumers did a remarkable job of repaying debts. Defaults declined to very low levels during the war and early postwar periods.

Second, banks learned that consumer loans are very profitable loans. Most banks have discovered that their consumer credit departments are among their most profitable departments, despite relatively high administrative costs and laws limiting interest charges. Such loans seemed particularly attractive with the excess reserves of the 1930's and the continued low interest rates of the immediate postwar period. They have continued to be attractive, however, despite the higher levels of interest rates and security yields prevailing in recent years.

Banks also discovered that consumer credit was an area with rapidly expanding demand. Again, this was of particular importance when banks had excess funds and demands for other types of loans were depressed. It had continued to be important, however, as more and more banks have come to consider consumer loans an important part of their portfolios. Many banks learned that they could make direct loans to consumers while continuing to supply funds to other types of consumer lenders. I am sure that many, if not most, of the banks represented here make direct loans to consumers, purchase paper from retail outlets, and at the same time lend to retail outlets and finance companies for the purpose of carrying consumer paper.

In the decade following the close of the war the growth in instalment credit was particularly rapid, giving rise in some quarters to expectations of continued growth at astronomical rates and in others to fears of a drastic cut-back resulting from the high percentage of consumer incomes being devoted to debt repayments. Consumers incurred debt to meet the backlog of deferred demand resulting from wartime shortages. Increasing home ownership and the move to the suburbs together with increased incomes gave rise to the two-car family, which constituted 12 per cent of all families by the end of 1955. The rise of new products, such as television, and the improvement of old products were further factors in credit expansion. New types of credit plans permitted the substitution of instalment for charge account credit, and increased demand for services such as travel and education encouraged the expansion of credit for these purposes.

Instalment credit controls were reimposed on two occasions -- in 1948 and again in 1950 -- to moderate expenditures for durable goods and the expansion of credit. The removal of credit controls in each case was followed by an easing of credit terms which both encouraged consumer expenditures and intensified the effect of the expenditures that took place. After a moderation of credit growth in 1954, outstanding credit rose 23

per cent in 1955 as automobile sales reached a record high and terms eased sharply further. At the end of 1955, total instalment credit was 12 times as high as 10 years earlier and automobile credit was 30 times as high. The ratio of debt payments to consumer disposable income reached 12-1/2 per cent in 1955, compared with 3-1/2 per cent in 1945. To many it seemed that the demand for consumer credit was insatiable. There also seemed to be an almost unlimited supply of credit as banks and other lenders competed aggressively for business. To many observers, it seemed that consumer credit controls were the only way to prevent continued sharp inflationary pressure from increased credit purchases and continued easing of terms.

What Have We Learned from Recent Developments?

In what way have developments over the period since 1955 modified interpretations of consumer credit trends? Few would suggest that the trends just discussed have been reversed or that the basic quality of consumer credit has changed. I do believe, however, that developments over the last five years have taught us some new lessons about consumer credit; or rather, retaught us some old lessons. I think that recent developments have pointed up the unusual nature of the early postwar period and the exceptional combination of circumstances that made 1955 possible. At the same time, they have emphasized the continued dynamic nature of the consumer credit industry.

What are the lessons that we have learned from developments of the last 5 years? First, I think that we have learned that consumer credit growth at the rate of the early postwar period was an unusual development that is not likely to be repeated under normal peacetime conditions. The rapid increase of credit in that period was associated with the backlog of deferred demand, the small volume of indebtedness at the beginning of the period, far-reaching social and economic changes, and expectations of continued inflation on the part of much of the public. I think that it is now generally recognized that the period 1946-1950 was largely a catching-up period. The ratio of debt to disposable income was about the same in 1950 as just before the war. Developments in 1955 reflected an unfortunate combination of record automobile sales and sharp easing of credit terms. Since then we have learned that such a growth rate cannot be sustained. Moreover, we have learned that reductions in consumer credit may take place in periods of recession, and that these reductions are likely to be the greater the more excessive was the preceding credit expansion.

We have also learned that automobile credit is not necessarily the dominant factor in the expansion of instalment credit that it seemed in the early postwar period. Expenditures for automobiles have increased less rapidly than many other types of consumer expenditures in recent years. Meanwhile, many of the factors which earlier resulted in such sharp expansion of automobile credit in relation to sales have not been operating to the same extent in recent years. At the end of 1960, automobile credit accounted for about the same proportion of total instalment credit as at the end of 1953 -- slightly more than 40 per cent. This

was also about the same proportion as in 1941. Personal loans increased from 21 per cent of the total in 1953 to 26 per cent in 1960, while other consumer goods paper declined from 29 to 26 per cent. Before I discuss these developments in more detail, let me mention two other lessons that I believe we have learned from recent developments.

One more lesson that we have learned is that there are such things as delinquencies and repossessions on consumer loans and that these need to be taken into account in administering consumer loan departments. Despite the generally good record of consumers in paying their debts, we have learned that not all consumers discipline themselves adequately and that many will attempt to borrow more than they can service from their incomes. We have also learned that recessions may convert otherwise sound loans into at least temporary defaults. We have learned that dealers that have sold recourse paper can go into bankruptcy, and that lenders can lose money on repossessions in a declining market. I know that a number of lenders are now operating with the highest delinquency and repossession rates of the postwar period. Others are spending increased time and money in collecting overdue loans and are screening new loan applications. Many lenders have learned to their regret that injudicious promotion efforts may require a high refusal rate if a rise in delinquencies is to be prevented.

A fourth lesson that we have learned is that consumer loans are affected by limitations of credit supply as are other types of credit. We have learned that loanable funds cannot be made available in unlimited amounts in periods of prosperity and high level demand without encouraging inflation, and that restrictions on the growth of credit affect consumer as well as other types of credit. As long as banks had excess reserves or large amounts of securities which could be sold at pegged prices, and as long as they were actively interested in expanding the proportion of consumer loans in their portfolios, this limitation did not come into play. In the past decade, however, we have relearned the lessons of credit restriction in all areas. Credit restriction appeared at times not to affect consumer loans as banks as well as other lenders competed actively for such loans. As consumer loans have increased in proportion to bank assets, however, banks that have been pressed for funds have restricted expansion in this as in other areas. No doubt many of you were among the lenders who were curtailing promotional efforts sharply, screening loan applications more carefully, exercising caution in taking on new dealer accounts, and upping interest rates on some types of loans a year or so ago. Some of you have also discovered, however, that it may be difficult to apply the brakes on consumer credit expansion if there has previously been injudicious promotion or sharp easing of terms.

Having summarized the lessons which we have learned from the developments of the past few years, let me review these developments in somewhat more detail, with special reference to changes in automobile credit. In 1955, as you are aware, automobile credit increased 37 per cent and other instalment credit about 13 per cent. The sharp increase in automobile credit reflected in considerable part the record 7.4 million new cars sold. Meanwhile, however, developments were taking place in

the market for automobile credit which both made these sales possible and intensified their effect on outstanding credit. The average size note on new car contracts rose sharply as automobile prices increased, consumers upgraded their purchases, and the real down payment ratio declined. The proportion of automobiles bought on credit also increased substantially. Meanwhile, the rise in repayments was moderated by the lengthening of average maturities as first 30-month and then 36-month contracts became common.

The continued operation of most of these factors in 1956-1957 kept extensions above the rising level of repayments despite a drop of almost 20 per cent in new car sales. By the end of 1957 almost one half of all new car contracts were being written for 36 months. The average size note on new cars was about one third higher in 1957 than in 1954. The proportion of cars bought on credit rose about one-sixth from 1954 to 1956 before declining slightly in 1957. Automobile credit, however, rose more moderately than other types of credit in the 1956-1957 period -- an average annual rate of 7 per cent, compared with 10 per cent for nonautomotive instalment credit.

A further sharp drop in automobile sales in 1958 reduced extensions below repayments. Outstanding automobile credit declined 8 per cent during the year while other types of credit continued to rise.

Automobile credit extensions picked up with automobile sales in late 1958, but in the period 1959-1960 automobile credit rose slightly less than other instalment credit -- an annual average rate of 12 per cent, compared with 13-1/2 per cent for nonautomotive credit. The average size note declined slightly as manufacturers failed to increase prices for the first time in several years and compact cars became an important element of total sales. Down payments and the proportion of cars bought on credit were unchanged. By late 1959, 36-month contracts on new cars accounted for about two-thirds of all contracts, but the proportion showed little further change in 1960. As you are well aware, the much-heralded 42-month contract failed to materialize. The growth of other types of credit in this period, however, was encouraged by promotions, by the adoption of new types of credit plans, and in some cases by an easing of terms. Automobile credit began to decline at the end of 1960, but personal loans continued to increase.

Future Trends

What conclusions can you draw from the past with respect to probable future developments in consumer credit? It is obvious that whether the early-1961 decline in instalment credit will continue will depend largely on changes in consumer demand, particularly for durable goods. I do not think any of you expects a decline of major proportions in consumer credit. On the other hand, consumer credit as such cannot be expected to pull us out of the current recession. When consumer demand revives, however, consumer credit should be a contributing factor to the upswing.

Over the longer run, you would expect a continued growth in con-

sumer credit as population and income increase and new items are bought on credit. You would expect, however, that the rate would be substantially slower than in the first postwar decade, and obviously you would expect periods of cyclical expansion to be followed by moderate declines.

The ratio of consumer debt payments to disposable income may rise moderately from the rate of slightly more than 13 per cent which has prevailed since the second half of 1959. The large baby crop of the war and immediate postwar periods will be reaching maturity and setting up homes. Older people will also form an increased part of the population. This group has always accounted for a small part of total consumer credit, but the incidence of debt may rise as an increasing proportion of older people are accustomed to the use of instalment credit and continue to have regular incomes after retirement. To the extent that an increase in instalment credit reflects rising incomes and an increase in the number of creditworthy families using such credit, it is of course no cause for alarm. Next, you would probably expect new items and the newer types of credit plans to continue to account for an increasing share of total instalment credit. The proportion of credit accounted for by the traditional types of household durable goods has been declining for some time. You might question how much further automobile demand can increase, in view of the very high incidence of automobile ownership and the number of multiple-car families at the present time. On the other hand, other types of large-ticket items are becoming an increasingly important part of what Americans consider the good life. You might also expect a continuation of the trend toward the use of revolving credit accounts for making a variety of purchases.

Many of the big-ticket items that are entering into the standard of living of more and more Americans are durable goods like boats and camping equipment. Others are services like trips to Europe and college educations. Many of these services are "lumpy" in the same sense as purchases of durable goods -- that is, they are made infrequently and they involve expenditures that are large relative to consumer income. The response of lenders to these new demands has illustrated the continued dynamic character of the consumer credit industry. On the other hand, some of these new types of credit may involve dangers if injudiciously promoted. Acceptance of the widespread use of consumer credit for the purchase of durable goods has been based in part on the fact that consumers were paying for goods as they were using them. I believe that there is a limit to the extent to which consumers can be expected to allocate current income in payment for purchases from which they are no longer deriving utilities. This danger is likely to be greatest in the case of expenditures that are in fact of a more or less regular nature or are likely to be repeated at intervals shorter than the maturity of the debt. The danger may be aggravated in some of the new types of credit plans that do not require a complete pay-off of debt incurred in connection with specific purchases.

Finally, on the basis of recent developments you would expect consumer credit to continue to show more sensitivity to developments in general credit and monetary policy than in the past. In view of recent

increases in loan-deposit ratios and in the ratios of consumer loans to total loans, more and more banks will probably find it necessary to restrict expansion of consumer as well as other loans in periods of credit restraint. By the same token, other consumer lenders will also find it difficult to raise sufficient funds for unlimited credit expansion. I do not say that general credit and monetary policy can prevent all excesses in the consumer credit field in the future. I do believe, however, that the apparent insensitivity of consumer credit to general credit and monetary policy in some past periods has been associated in part with special conditions in the financial system and in the economy generally. After recent developments lenders may be less eager than in the past to enter into excessive credit easing or promotions that may be difficult to curb.

As in all things, we have much to learn not only about consumer credit but also and especially about its use. Experience teaches discretion. As in life generally, so in this field abuses and excesses have been experienced that were not in the interest of the borrower or the lender and of course not in the public interest. Nobody knows that better than you, and nobody can contribute to the welfare of the consumer credit industry as effectively as you. Your discretion is essential to its sound economic and social contribution.

CONSUMER CREDIT UNDER ATTACK

William J. Cheyney*

You are all engaged, one way or another, in supplying consumer credit facilities to the American people. Consumer credit - consumer finance has become possibly the most important ingredient in our distributive economics.

Fortunately perhaps, but possibly unfortunately, the subject has become one of the most widely discussed in everyday conversation; in the newspapers, the publishing business, radio and television, and in the government forum.

Strangely enough, it seems that the more consumer credit is talked about, the less it is understood, because the avalanche of publicity given it is so impregnated with misinformation and faulty economic judgment, and because the average reader and listener are not inclined or able to research privately.

The image of consumer credit had become, by and large, quite a good image up to a year or so ago. Back in the late 1930's there was a barrage of critical, unthinking analysis thrown at our craft. It became a popular target for political debate, a popular vehicle among politicians for vote-getting; but the criticism at that time was undirected, scattered and participated in by a good many who really had no antagonism in their hearts. It was relatively simple to present the facts to these critics and procure their studied acknowledgement of what consumer credit was, in fact, then doing for the people and accomplishing for the growing American economy.

The barrage stopped about as quickly as it had begun. Admittedly, in the interim between then and last year, there were many discussions about the regulation of consumer credit transactions, but these were confined pretty much to the matter of economic stabilization, and those misunderstandings with which we had to deal resulted from honest inadequacy of facts and faulty economic principles and judgments as to the effect of the growing bulk of consumer outstandings upon inflation or price pressure, the value of the dollar, jobs in industry and similar subjects.

In all that time, difficult though it was for those of us working in the economics of consumer credit, it was a period in which we dealt in economic argument with men who, for the most part, were grinding no axes of animosity.

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While the subject of ethics came up time and again, it never could be said, for instance, that the Board of Governors of the Federal Reserve System looked upon the problem of potential controls over consumer credit as other than tools to supplement those in the over-all financial kit at the Board's disposal in behalf of the national economy.

Meanwhile, consumer credit has grown by leaps and bounds, and new millions of families can attest to its value. Let it be understood, however, that never in the interim period nor today has the American public been "up to its ears in debt" as our newspapers, radio and television stations so frequently have said through the years. Gigantic though its totals have become in terms of outstandings, new commitments, repayments and the like, never more than a few percentage points over half of the American family units have been in instalment debt at any one time.

Year by year, without interruption, the median American family with consumer indebtedness has become a family of higher income status. For a good many years, the greatest increase in the use of consumer credit was among families whose incomes were $7,500 per year or more.

We enter the current period with a tremendously satisfied consumer group which has learned to use credit pretty well, well enough to be satisfied with its results in terms of the better living conditions it has afforded them in their homes and lives. This, despite all efforts to create an impression of a dissatisfied customer group.

It is doubtful that any American ever had any illusions about the fact that there is a cost to using credit services. With few exceptions, the truth certainly has remained that the total over-all cost of goods and services bought, plus the credit service charges added, has been reasonable enough in the eyes of the public to be acceptable in the marketplace.

We who have been employed in consumer credit work have learned in the interval from 1940 to 1961 that the credit service of this economy is highly important, that it is indispensable to industry -- to all industry, not just to the segments of it where credit is involved directly in the distribution of its production -- and that it is critically necessary to the needs of workers for jobs and the requirements of government for tax sources.

Around about 1950 as we appraised the growing usefulness of the consumer credit service offered by the American private enterprise economy, we came to realize that even though this mechanism was still in its relative infancy, the nation had the consumer's use of his credit to thank for:

1. the gigantic growth of big utility systems into every nook and cranny of the country;
2. the development of the great machine tool industries;
3. the maturity of the "hard goods" industries into a position where they had come to enjoy the continuing patronage of a great force

of highly skilled, highly paid men; the tooling of great factories; the manufacture of the galaxy of the larger products of our day which make American living what it is;

4. the growth, particularly, of that type of factory and production facility most readily convertible to war production;
5. the support of the type of tax base which alone could keep this country at the forefront of the world, economically and militarily;
6. the great automobile industry with its new concepts of transportation as a part of everyday life, new horizons as to the employment of men at higher and higher wages;
7. the entirely new American home with its comfort-giving and labor-saving devices such as never before have graced the homes of any people.

There are undoubtedly many more developments that have taken place in this country either because of the existence and use of consumer credit or which never could have been possible had consumer credit, as an implementing force, not existed.

In Russia for years there was no consumer credit. They did not believe in it, taunted us as spendthrift and lax as we proceeded along our way, decried the kind of economic system that depends upon it. And then, two years ago in 1959, they made a complete turn-about and frantically rushed into a consumer credit system akin to ours -- not just for Russia's economic survival, but to guarantee continuance in power to the ruling Soviet group when it became evident that this step was necessary to quiet the unrest of Russian families so long denied the way of life which they were learning to realize existed abroad.

It is interesting to note, however, that there are no "evils" of collections, collection letter writing, telephoning, and the like in Russia. Since the products and services which a man buys on credit in that country are produced by his government and the wages he makes come from that government, the check-off system obviously should be simple. A man's take-home pay comprises what is left after his instalment payments have been deducted.

A strange commentary on this is word lately from Russia that, actually, they do have a tremendous problem of skip-tracing, new as their credit system is and despite the check-off plan of payments. Men just seem to disappear, and with them the products they have bought on credit.

In Germany, a few years ago, the biggest electric refrigerator available to the public, even to bank presidents, had a capacity of two cubic feet. Consumer credit had been almost nonexistent since the Second World War and the demise of the old German mark. In these last few years Germany has developed a consumer credit system not quite like our own but perhaps almost equally efficient. It is not necessary to tell you what has happened to the German economy, the average income of the West German family, and the availability of full size electric refrigera-

tors, indeed of all sorts of home and family equipment, including television said to be considerably better than our own.

A family in Holland which had operated a retail establishment for a century and a half and had sold nothing except for cash, picked up our American credit system about eight years ago. In these eight years the annual business volume of the company has increased close to 1000 per cent.

The Bank of Holland at first decreed that its receivables would not be considered "assets" when determining that firm's own credit lines, so that the going was rough at the beginning. The success of this venture was so startling, however, that soon the Bank of Holland rescinded its early judgment. Credit receivables today are among the most valuable of a retailer's assets, as they are here in the United States.

Moreover, the use of consumer credit is spreading over that entire nation, as it is in almost all of Europe, with results which only we Americans can accept without surprise. In fact, in Europe, including England, there is today the counterpart of our National Foundation for Consumer Credit.

Incidentally, the credit losses and delinquencies experienced by these firms in Holland, in England, and throughout Europe are almost exactly equivalent to those found on the books of our American stores, showing that cultured people the world over are similar as credit risks, regardless of length of credit experience or the lack of it.

All this is simply illustrative with no intention of reviewing completely the vast development which has taken place in the United States and abroad of that arm of the private economy, consumer credit, which is responsible for providing the link between larger, costly products and services and the piecemeal programming of wages and pay which working people receive weekly, semi-monthly, and monthly.

In earlier days, when products could be bought at the stores in small quantities, the weekly pay envelope was relatively sufficient to lubricate the exchange of hours of work on the one hand for the products of industry on the other. When "store boughten" products assumed the proportion of refrigerators, television sets, factory made furniture, floor coverings, automobiles and the like, these products could be acquired only through the development of a mechanism like that which connects the engine of an automobile with the wheels, where the engine turns three times while the wheels turn once. Only so could the little families of this country and of the world procure these larger products. We call this mechanism consumer credit. It has developed well; it has served to supply people of all circumstances with a fair share of what this economy today can make for people to use.

The system has not developed perfectly nor has it reached its ultimate maturity. But it has done well, it is an honest system -- countless millions have no cause for complaint. Just as in the schools, the churches, industry, banking, there are those in the consumer world

who cut corners, seek sharp advantages. Their number is small and becoming smaller. By education, the great masses of people are learning how to spot these individuals and the places in which they work, learning how to deal where it is to their own personal advantage to take their trade.

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An adverse, critical, and most unfortunate tide has been rolling up on us in the last eighteen months or so. This is a more serious obstacle to the proper, continuing maturation to the consumer credit service than any with which we have been confronted thus far, even that of earlier years when, indeed, criticism would often have been warranted.

This is an insidious development which casts doubt in the public mind that the credit business is honest or delivers dollar for dollar of value for every dollar it takes.

There have been a good many causes.

For one thing, our friends in retailing, for some unknown reason, have been prone to wax eloquent these last few years about how important to them is the side income generated from credit service charges. For decades the accounting fraternity, over whom businessmen have had no real influence, has pursued the practice of showing income from credit service charges as "other income" at the bottom of audited profit and loss statements of retailer clients. The figure so quoted, in gross amount, stands by itself. No charges or costs are assessed against it. It looks like clear, clean, net profit. The complete costs of the credit service department have been incorporated into the total costs of the merchandising operation. Hidden thus, they serve to reduce the resultant merchandising profit shown.

The result? A great big clear, clean net profit from credit service charges shown up against a net merchandising or operating profit reduced by the costs of the credit department's operations.

Thus, from both directions income from credit service charges is made to loom larger than it actually is. In fact, very often it should truly be shown as a net loss.

In many recent instances, retail merchants in speeches and in interviews with the press have made such ridiculous statements as "were it not for income from the credit service charge, I would not be in business," ... "the credit service charge accounts for almost all of my net profit," ..., and the like.

Concurrently with this phenomenon, investigations over the country have inquired into unusual practices in some segments of the automobile business, where some few dealers were found to be selling cars at less than true competitive market prices, even below cost perhaps, and then imposing high credit service and other hidden charges to offset costs and produce a final profit. Using newspaper advertisements and other means

to invite consumers who can attest to such transactions, these infrequent, abnormal and inexcusable cases have been brought to light, as they ought to be.

The unfortunate result, however, is that those who are looking for new fuel to pour on their existing critical commentary about consumer credit are supplied with unusual, inflammable ammunition to support their attack on the whole mechanism of credit, not just upon those few who have abused the function.

Other illustrations could be listed for the causes of it, but suffice it to say that in the aggregate these have enticed a veritable avalanche of critical exploitation of the operation of consumer credit. The attempt to disturb and alarm the public is mounted with careful regard to psychological warfare.

To a destructionist, this is relatively easy because:

1. Consumer credit service charges must be, by percentage, far more than the "6% myth" deeply embedded in the public mind from elementary school days, the memory that "6% is interest" and "interest is 6%".
2. Despite the very nominal amounts, in dollars and cents, of the credit service charges generally assessed throughout the country on millions upon millions of accounts, these entirely fair and already well understood dollar costs can be made to look ridiculously high by reducing them to simple ("interest") rates per annum.
3. The public may be quite universally satisfied that retailing, banking and finance are honest, fair-dealing institutions, and may be well satisfied with the reasonableness of credit service charges, so long as one takes just a little care to avoid the few pitfalls that everyone knows exist on the outer fringes of all human inter-relationships. Yet, this same public can still be inflamed into skepticism and anger bya well-timed onslaught of publicity slanted with sarcasm and innuendo, and backed by the weight and dignity of proposed Federal legislation, to correct a so well publicized and so well exaggerated, alleged terrible evil.

It is not my purpose to discuss the proposed legislation, with all of its technical problems, the legislative vehicle devised to implement a fomented, nationwide uprising in behalf of "Truth in Lending," "truth in the expression of credit costs," as if there were no substantial truth in these areas today. Truth is not limited to what you or I or anyone personally may prescribe as its dimensions. Nor can law open the eyes of the careless and ignorant.

It is upon a base of innuendo and undermined public opinion that is built the case for the proposed requirement that all charges of any sort incident to the sale of goods or borrowing on credit must be lumped

together and the total thereof reduced to a simple annual rate upon the original unpaid balance of the account.

It really is astonishing, this barrage of publicity spread from coast to coast right at this time to throw the weight of public opinion abruptly, and unthinkingly, and by shotgun psychology, behind the theory that the American private enterprise system's consumer credit arm is dishonest in such degree that it cannot be trusted by the public.

The free enterprise system and just now the credit segment of it particularly is up against a publicity barrage which easily could discredit it and which, in practical effect, could very well drive away literally several billion dollars of business each year, to the detriment of the American worker himself, whose job depends upon full production and full distribution; to the federal, state, and local governments, who depend upon the utmost productivity and distribution for the tax take necessary at this time; to the American family which may be led to assume that credit buying is a trap and which may thereupon redirect spendable funds into other expenditures far less productive of satisfaction in their purchase and often far less lasting in their good effect upon the family welfare, comfort and living standard; upon the private enterprise system's profits in a period when the profit squeeze is really alarming in many industries. I venture to be so bold as to say that the profit motive is still the soundest motive on earth on which to build a great economy for the best physical well-being of a great populace.

In altogether too small a way, business has been countering this attack by taking the truth about consumer credit direct to the public, by education in the schools and colleges of the country to make sure that those who use their credit may indeed know how to ascertain the facts as to what it costs them, where it is safe to use this credit, how it can be made to work for their benefit, what it means to jobs in the economy, and all the rest.

Nonetheless, in over 1,700 school systems throughout the United States, classroom teaching is going on in this field to spur public understanding and inspire consumers to use their credit intelligently; a project developed jointly by the educators themselves and students in the enterprise side of the picture.[1] Private enterprise, indeed, is growingly at work to meet its acknowledged responsibility to those who use its consumer credit facilities.

It is perfectly possible that the immediate attack may in due course wane, and that once again credit business may emerge, scarred but still sound and equal to its operational responsibility. Should this happen, the relief will be but temporary unless business and finance bestir themselves and see to it once and for all that (1) their skirts are clean, the way they

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1. The Study Unit, "Using Our Credit Intelligently," is published by the National Foundation for Consumer Credit, Washington, D.C.

handle the public is honest, forthright and with full, clear disclosure of all the facts as to costs, obligations, quality, service and price; and (2) they get behind a gigantic educational effort to see that no citizen, if he has ears to hear or eyes to read, can fail to grasp the truth about consumer credit and the proper way to use it.

THE COMPUTER -- PROBLEM CHILD OF THE OFFICE

R. E. Ball*

The subject chosen for tonight is "The Computer -- Problem Child of the Office." We have certainly had our problems with the computer and, in my opinion, they are largely the result of the computer's youth. It is not my intention to paint a dismal picture of our failures -- there has been enough of that -- but rather to look at some of the shortcomings and to give you some idea of why they happened and some possible solutions.

We have had our problems and our trying times with the computer -- and we will have more. The principal reason for most of our difficulties probably is one that is beyond our control. The entire art of business data processing with electronic computers has grown up over the last ten years. In that time we have had the equivalent of an office industrial revolution and it is no wonder that we have problems.

Consider this statement by Dr. Ben Miller, Associate Professor of Management, St. John's University, which appeared in an American Management Research Study, "Gaining Acceptance for Major Methods Changes":

> During the present period of spectacular technological progress, there has been only a modest growth in the understanding of the problems of automation. Because of this imbalance, many business enterprises have experienced intense disappointment in their installations of electronic equipment, perhaps even culminating in the complete collapse of an automation project. In numerous other situations, only a small proportion of the potential savings has accrued from a methods change.

Anyone who has looked into the history of computers soon learns that the initial design was Charles Babbage's Difference Engine. Charles Babbage lived in the early 1800's, which made him a contemporary of James Watt. I had erroneously assumed that his Difference Engine and its successor, the Analytical Engine, were devices similar to our present day desk calculators. I was very surprised, therefore, to read an accurate description of what this man had done. He was 100 years ahead of his time. What he had in mind was a general purpose automatic digital computer, a computer -- utilizing punched cards -- which was able to perform almost any mathematical operation, make limited logical decisions, solve a series of problems programmed in advance, and print out the results. The machine was to have a storage capacity of 1000 50-digit numbers and built-in logarithms, as well as other tables.

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* Mr. Ball is Chairman of the Electronic Data Processing Programming Committee of American Telephone and Telegraph Company.

In 1812, Parliament gave Babbage a $75,000 grant to pursue his invention. When their money and patience ran out, Babbage continued to work on his own. In 1842 he abandoned the Difference Engine to work on a grander project, the Analytical Engine. He died in 1871 with both machines half built.

James Watt's steam engine was recognized as a supplement to man's muscle. As such it was developed over a period of more than a hundred years from his first crude design to the monster of the type in the steel mills of Pittsburgh, an engine with a piston three feet in diameter. It is sure that the progress of the steam engine was not without difficulty and problems, but the growth from birth to today was spread over better than a hundred years.

The Babbage Difference Engine was a device to supplement man's brain and as such was ignored for a century. In the early 1800's man did not need a supplement to his brain; there was nothing finer, and most of the problems that could be recognized in those days could easily be solved by man. Came the second World War with airplanes, atomic bombs, rockets, and what have you. The problems which required solving soon outstripped man's ability to handle them within the time allowed.

About this time someone rediscovered Charles Babbage's design for the Analytical Engine and recognized in it the principles for the computers of today. This was the start; in less than 20 years we have come from the early crude relay-controlled stored-program computers to today's fantastic machines.

This is the area which has been beyond our control. It seems that most of our problems with computers in the office have come from too rapid a growth. We have scarcely been able to begin to understand one concept before another was presented to us. Can you imagine the chaos that would have taken place if the steam engine had gone from its inception to today's engines in less than 20 years and that for the first 10 of those 20 years it was used largely for military purposes. I can hear the International Steam Engine salesman now: "Sir, I have here a device which will enable you to fire everyone in the factory but yourself and a man to shovel coal -- and if you don't find coal shoveling distasteful, we can let him go, too."

There are, according to a recent census, about 4,000 large and medium scale computers at work on business data processing. Most of these I am sure are doing useful and productive work. Most have achieved the initial objectives set for them -- perhaps not immediately, but within a reasonable time. This has not come about by accident. It has been a time of learning and of hard work.

Probably one of our more serious deficiencies has been in the field of education. This has been in two areas -- the education of those responsible for the ultimate decision to use the computer and who, of course, will be most concerned with the results of its use, and secondly in our technical training.

In the first instance -- that of the education of upper management -- we have been on the horns of a dilemma. Most of us, until recently, were not particularly knowledgeable in the computer field and as a consequence were not in a position to do much in the way of education. As a result, this was largely left to the machine manufacturer's representatives. Let me say right here that I do not in any way criticize them. They had a job to do and that job was to sell their wares. They have also learned, as we have, that the computers are not the answer to every office problem. I can say from experience that these people are basically honest in their presentations of their equipment. After all, they suffer from the failures, too. Nothing gets around faster than the news of a flop. In some cases, I suspect that their enthusiasm might have run away with them, however.

Consider the following quotations from advertisements for data processing systems. I have tried to be fair and get a quote from each of the large manufacturers and tried not to take the statement out of context.

1. Management has immediate access to data that can vitally affect its decisions.
2. ... a complete programming system will be available ...
3. ... with error-proof programming units controlling every step ...
4. ... three to five times the capacity ...
5. Now you can run off a payroll, update inventory and schedule production all at once ... and also solve a scientific problem.

Incidentally, every machine is the fastest.

If this has been the only information which top management has been getting, is it any wonder that in many cases they have been disappointed with the time and cost to get a project "on the air."

We have a definite responsibility to let management know that these are advertising claims and must be considered as such. It is just not as easy as it seems.

1. What is immediate access? It certainly does not mean walk up to the machine and ask.
2. What is a complete programming system? It certainly does not mean that a program for your payroll will be delivered with the machine.
3. What is error-proof programming? There is no guard against errors introduced by the programmer as long as they are logical from the machine's standpoint.
4. What is capacity? A figure of X thousand words or characters alone means nothing. What is the storage medium, is it fixed or variable word length, is a single character addressable?

5. How many programs can be processed simultaneously? Only as many as can be fit into memory along with the data to be processed.

Most of our disappointments today stem from a lack of knowledge of what to expect. We have the experience now. Before you get in over your head, talk to some others who have been through the mill. And don't make the fatal mistake of thinking "It can't happen to us" -- because unless you educate well and plan well, it can happen to you.

At any rate, because it was the manufacturer's representatives who were doing the training of top management through advertisements and personal contact, the claims certainly were weighted in their favor. As a result, in many cases management was led to expect to be able to displace everyone but a man to shovel coal. We have learned over these ten years to be much more circumspect of the claims of the manufacturers and to examine them closely.

We have to be sure that management understand that they trade the flexibility of the clerk for the advantages of reduced clerical costs. This has been one of the most serious criticisms levelled at the computer. "I was able to get a special sales analysis in two days before the computer arrived; now it takes two months." We cannot retrain the computer in minutes as we can a clerk. Unless the original system was designed to facilitate these quick-fuse requests, they will take time. We can, of course, put the heat on and rush it through; the result frequently will be what you would expect -- errors. Usually lots of them.

It would seem to be our duty, within the bounds of reason, to resist the desire to acquire a computer just because everyone else has one. A computer alone will not increase your advantage over a competitor who has one. A poorly run factory or office will seldom, if ever, be better run just because a computer has been installed. Remember, generally speaking, the people who will program the computer will be your people and if you have a poor system to start with, the computer can only cause that poor system to operate a little faster at best.

It is also the duty of those of us who have the responsibility of advising management to be sure they understand the difference between the manufacturer's claims and reality as far as our business is concerned. Once again, this is not to condemn the manufacturers, but to point out that they have a product to sell just as you and I do. You must look at what you want to do and try to find the best way to do it, and have the courage to state your position. The computer is not the answer in every case.

Another serious error is over-dependence on the manufacturer for programming assistance. Once again, to quote Ben Miller:

> One of the more serious questions raised by the company's approach was its almost complete dependence on the machine manufacturer in designing the new system. The high skill of

his methods analysts is, of course, unquestioned. Naturally, also, there is no doubt about the direction in which their loyalties lie. Permanently associated with the manufacturer, in a client company they are transients; they will remain on one assignment only until they are transferred to another. Whatever the justification the client company has for relying upon outside methods analysts -- getting "free" service or avoiding the difficulties of training its own, for example -- such a course of action is bound to leave regrets. It is decidedly a short-sighted approach.

In the area of technical education, we owe the computer manufacturers a vote of thanks. When we analyze the time spent on a large computer project, however, we find that only 10 to 20 per cent of the time is spent on translating the logic of the job into a language which the computer can understand. Further, the job of coding is being minimized every day by the development of automatic coding systems such as Flowmatic, Autocoder, COBOL, and so forth. What are we doing to educate our people in system design? Very little. And here is the heart of the matter. We have heard it said many times that the computer is only a dumb beast that will obey our explicit commands without question time and time again. A clever programmer might save, through sophisticated programming, let us say 200 microseconds on a program that is run once a day. It will take 12 years to save one minute of computer time as a result. A clever systems man, through the simplification or even elimination of certain reports may save minutes or hours each day. And yet we spend 90 per cent of our time in training coders. We are learning, and there will be much more emphasis on the age-old systems doctrine of "Who needs it, When does he need it, What does he need, Where does he need it, and most important of all, WHY does he need it?"

There was a gentleman at the GUIDE meeting in New Orleans last fall discussing the wisdom of using generalized routines provided by the manufacturer without change whenever possible. He cited the case of one of his employees who thought he could speed up a generalized sort routine. This employee spent two weeks writing the modifications and 45 minutes of machine time debugging it, and he did speed up the sort. Based on their current use of the sort routine, which is extensive, they expect the time saving to pay for the 45 minutes of machine time he used in debugging by 1972.

Another problem that has given all of us sleepless nights is our inability to estimate with any degree of accuracy the costs and savings associated with computer projects. I have made and examined a number of proposals over the last five years, and I have also had the opportunity to follow up on a number of these. My experience has led me to formulate what I have modestly termed Ball's Law. It is simply this -- multiply the cost by two and divide the savings by two, and you might be half right. I am not absolutely sure of the last half of that Law, but I will swear by the first half. Sometimes it has seemed that all the manufacturers have been able to do with each increase in speed of their equipment is to make our original estimates honest. If I were any one of you, I

would get the best proposal I could -- be it made by the manufacturer, your staff, or both -- and if I couldn't live with twice the developmental costs and half the savings I would reject it on the spot. I am not trying to discourage anyone from embarking on the computer road, but rather suggesting that a well-defined road map and plenty of time be allowed.

Speaking of microseconds, I suspect that many of you have just as much trouble as I do in comprehending a microsecond. Even when I consider that there are more microseconds in a minute than there are minutes in a hundred years, it is still beyond my understanding. I picked up something at A. T. & T. along this line the other day that intrigued me and perhaps you would be interested. As you may know, we have developed and now have under test an electronic central office. This equipment is just a big computer which devotes most of its energy to connecting telephone lines together instead of doing mathematics. The original design has a basic cycle time of 2-1/2 microseconds. In order to try to understand the speeds involved, someone proposed that a hypothetical movie be taken of this office in action and then projected at 1 million times slower than normal. In this ultra-slow motion movie:

> One dial pulse -- a spurt of electricity caused by the dial moving one space, say from 2 to 3 -- would last 27 hours;
>
> The average customer would take 5 to 6 months to dial a seven-digit number;
>
> It would take from 5 to 10 days after lifting the receiver to hear the dial tone and, the called party's bell would ring for one to two years before he answered.

Bringing this a little closer to the office, the IBM 7070 will add two ten-digit numbers and store the result in 30 microseconds. If we were to have the computer perform this operation continuously for one minute, it would take a key punch operator working a 40-hour week (without coffee breaks) four years to prepare the input for this one-minute run.

Here is the heart of one of our most pressing problems today. These computers have a voracious appetite for data. We are in many cases back in the dark ages when it comes to getting these data from something we can understand into the computer's language. There is, of course, much activity today working towards the development of hardware to speed up this input preparation. A lot of effort and energy is going into the development of translating devices. This equipment, such as optical scanners, magnetic ink readers, and so forth, convert data intelligible to human beings into machine language. The development of equipment to capture the data in machine language at the source is gratifying. These include department store point-of-sale recorders, production data recording devices, and so forth. This equipment will go a long way in helping to close the gap between the speed of data preparation and the speed of data manipulation. As wonderful as these devices are and will be, they are not enough.

The answer to this problem cannot be dropped into the manufacturer's lap. This is a systems problem. The perfect answer is to eliminate the input, but obviously this is not practical. Much of our input problem is of our own making because we developed many of our systems for human beings and have tried to perpetuate them on computers. We have compounded the felony by creating inputs where none are needed.

Consider the present-day system of handling the payment of bills. Someone at IBM has made a very interesting study of this subject. The actual payment is simple -- the bank merely debits one account and credits another. To set off this reasonably simple transaction, look what happens. The department store provides input to my system -- a bill; I provide input to their system -- a check; they deposit the check and provide input to the bank's system, and finally the bank returns the check to me -- another input to my system. All that is ideally needed is one input to the bank -- the rest is redundant. Certainly there are major sociological changes required to achieve such an ideal system. It will come in time -- look at the sociological changes the steam engine made.

Neal Dean of the consulting firm Booz, Allen and Hamilton, summed it up at a recent Management and Business Automation seminar as follows:

> Past and current developments in electronic data processing suggest that major changes can take place in business transactions within the next two decades. A key to our automatic business future is seen in today's rapid transition to fully automated banking transactions. Tomorrow's banks, in effect, may become financial utilities which handle vast volumes of both private and commercial business transactions on electronic data processing equipment, instead of the paper mills which they really have become today. Inputs to such utilities could range from magnetic tapes to coded dial phoning, utilizing automatically readable credit cards. Such a change could lead us to an almost moneyless economy. Tomorrow I think checks will be obsolete, as much as this appals commercial bankers of the country who are finally finding out how to handle these millions and millions of checks.

One charge which is constantly levelled at many of us in the computer field is that we have "put wheels on present procedures." In many cases this indictment is true, but it does not necessarily follow that it is wrong. I object to the inference that every procedure that is put on a computer without a massive overhaul was done without thought.

Company managements are committing their companies to large investments or expenses when they decide to go down the computer road. They expect, and rightly so, a return as soon as possible. I see nothing wrong under these conditions, assuming the economic studies preceding such a decision are favorable, in "putting wheels on a job." In some companies the pressure to get into computer operations is not so great and there is sufficient corporate discipline to hold off until a complete

system evaluation has been made. This certainly is a desirable approach where it can be followed.

In the "wheels on" approach, the fault seems to lie not in adapting existing procedures to the computer, but in leaving them that way. The computer, with its tremendous capacity for work, should serve as a catalyst for further study and improvement of procedures. In the early stages of conversion to electronic data processing, much of the staff energy must be directed toward mastering this new art. In many cases, little time is available for detailed systems study, also. Once the initial conversion is over, it is time to re-examine what has been done to improve the procedures.

C. Northcote Parkinson, in a speech about a year ago, touched on another problem that has plagued most of us. Timing. He was speaking of the enormous waste in the rocket field that occurs because someone forces the project director into stating an arbitrary date for, let's say, a man on the moon. As the date approaches, unforeseen problems have put the project six months behind schedule. More manpower, usually poorly trained, overtime, and shortcuts are the order of the day. These in themselves beget more problems, but the day now has been widely publicized and the shot must go off. To do otherwise would be unthinkable. Usually the result of a crash program is a crash. He points out that the money wasted on an approach like this can be fantastic.

Another quotation from Ben Miller's report:

> One of the most unnerving circumstances, in several companies, was that unrealistic deadlines were established for the change-over to automation. These objectives were set up by top management without consultation with the methods analysts. The most extreme instance revealed in the study was that management in one company overruled the planned installation date of the methods group and advanced it -- arbitrarily -- by four months. That the results were not disastrous was due to sheer good luck.

An area which has seemed increasingly important during the last two years is the field of documentation, the written and diagrammed record of the program which is left behind for posterity. Documentation is the great paradox of the computer business. Few installations go into a project without the resolve that everything will be documented. It is, then, surprising to follow up later and hear them say that their biggest single failure was their lack of documentation. Let's look at some of the reasons for this:

First, there is seldom a plan of documentation defined and written down in advance. The programmer then is left on his own as to how much to document and sometimes may even choose the format.

This brings us to the second point. It is a rare breed of programmer who has the desire and the self-discipline to document a program adequately. This is tedious and boring work, and frequently has to be

revised over and over as concepts of the job change. I know from my own experience that the pleasure in programming is to get the job coded and to get it on the machine. I do not think that this is at all unusual.

Third, supervision itself is to blame. Many installations have the highest resolve to document adequately, but adopt the attitude that this will be done after the job is running. The greatest value of complete documentation is at the time of testing and the early stages of conversion. I have seen programmers approach a test session without the vaguest idea of what they expect the output to be. In some cases, they have forgotten how many portions of the program work. The time and money spent debugging a program under these circumstances can be appalling.

Another reason for poor documentation is panic. Inevitably the time arrives when the computer is only five or six months away and half the programs are not even started. In the rush to get ready, documentation falls by the wayside. The results are the same. For every hour gained, two are lost in testing.

The Bell System's efforts in the field of documentation are of great interest and satisfaction to me. At one time we investigated the possibility of using special-purpose computers to handle our billing and collecting job. These machines were to have a large amount of the logic wired in so that they could be used in as many as 100 different locations with a minimum of programming effort. For a number of reasons, it was decided to go to the manufacturers of data processing equipment for the computers and we eventually decided that large-scale general-purpose computers would do our job very well. We still wanted to cut down the programming costs and calculated that if locations after the first one could accomplish the job with only 50 per cent of the effort we could cut our development costs by over 15 million dollars.

Our management was convinced that without a well defined plan of documentation in standard format we could not realize these savings. Accordingly, we put together what we call EDP Programming Standards. This document covers all aspects of computer documentation, including detailed instructions for such things as program and magnetic tape identification, written program description, flow charts and diagrams, operating instructions, records of data layouts, and so forth.

We developed these standards to increase the degree of transferability from company to company and office to office. This objective is being met. We are amazed, however, at what the use of a standard form of documentation, used from the beginning, can do within one project. We see these advantages:

1. <u>Better control of the project</u>

   We know where the programmers are by reviewing their documentation. I have heard of programmers -- not in the Bell System, I am sure -- who were able to string supervision along for months with progress reports on nonexistent work. Supervision and auditing, knowledgeable in the standards, can review

proposed procedures more easily. A programmer cannot say he will do one thing and then do another.

2. Saving in time and money

   The initial reaction to complete documentation in a standard format is that "we can't afford it." Actually, you can't afford not to. In the testing area alone a poorly documented program can take as many as sixty test shots. On the other hand, programmers with equally complicated programs, but well documented, have completed their initial testing in five shots. It goes without saying that programs will require change and programmers will move on to other jobs. The value of complete documentation cannot be overestimated at this time.

3. Better job

   A well-defined system of documentation will, by its very nature, force programmers into a more logical approach to the procedure and will produce a better product.

Our experience has indicated that anyone who is embarking on a computer project should:

1. Develop a comprehensive plan for documentation.
2. Insist on its use from the beginning.

The time and money spent on this will be more than recovered by savings in debugging and program maintenance, and a better job will result.

The machine manufacturers have done all that is required of them -- sometimes it seems like too much. Our aim, now, must be to learn how to use their product. We need to find and educate good systems people and to let them work in a climate that will stimulate new ideas. We must guard constantly against the natural human desire to resist change. We have in our hands a new tool -- we need new and better ways to use it. To use the computer to perform our data processing work based on today's systems is like using a sophisticated automatic milling machine in an 1890 carriage shop. It will help to make carriages, but at what a price.

This problem child of ours -- the computer -- is a good child. We must now learn to care for it, feed it, worry with it through adolescence and learn to understand its strengths and weaknesses. It will, I am sure, become a solid, useful, productive citizen of the office.

DETERMINING FINANCIAL NEEDS UPON RETIREMENT IN THE MILWAUKEE-RACINE AREA

Anthony J. Koenings*

In the year 1900 there were only three million Americans 65 years of age or older. By 1960 sixteen million had achieved senior citizenship, including five million who are over 75 years of age. It is predicted that within ten years there will be twenty million in the so-called "golden years," and of this number over seven million will be 75 years of age or older. Two out of every three people now aged 65 can expect to live to be at least 75; one out of every four will celebrate their eighty-fifth birthday. Twenty years have been added to the lifespan of man since the turn of the century.

Americans can take justifiable pride in the health and social welfare programs that have made this possible. The problem now becomes one directly related to the quality of these added years. For many aging citizens, retirement is a time of increasing isolation, helplessness, and poverty. Dramatic stories in newspapers and magazines focussing on the plight of the aged would seem to intimate that the problem stems from callous neglect and lack of concern.

Financial insecurity heads the list of the problems of the aged. The average income of a man of 65 is less than half that of his neighbor who is between 45 and 65 years of age. Over one-fourth of the older men, and nearly half of the older women, subsist on incomes which are below that which is considered as a substandard subsistence level. Three fourths of our older people have money incomes of less than $1,000 a year.

Despite the fact that a pitifully low income is a pressing problem, our older people do not want charity; they want an opportunity to help themselves. Senator Pat McNamara, Chairman of the Subcommittee on Problems of the Aged and Aging, said, "... we have made it possible for more people to live into the "golden years" but without adequate incomes, health care, housing, and without a recognized role in the

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* Mr. Koenings is Welfare Manager for S. C. Johnson and Son, Inc., of Racine, Wisconsin. This study was made in partial fulfillment of the requirements for his degree of Master of Business Administration in 1960, and was motivated by and based upon his interests and duties in connection with planning for the retirement of employees of this company. The development of the Budget Standard for a Retired Couple, as presented on page 46 has specific reference, therefore, to Johnson employees, but is applicable to the general Milwaukee-Racine, Wisconsin, area. This study was made in June of 1960, at which time Social Security provided a benefit of $120 for a retiring worker and $60 for his wife at age 65. In September, 1961, these figures would be $122 and $61, making a difference of only $3, which sum should, of course, be distributed among the various items comprising the proposed Budget.

community life of the nation."[1] He also said that the primary issue facing the aged today is now to maintain a decent American standard of living on a heavily reduced income.

Financial Problems in Retirement

According to the New York University-Bellevue Medical Center, there are three main requisites for successful retirement:

1. Some degree of financial independence
2. Good physical condition
3. An active interest in the future and in life in general.[2]

These ends can usually be achieved to some degree by adequate advanced planning and preparation. It is becoming increasingly evident that people need to be educated in how to plan ahead for retirement. The purpose of such a program should be to help employees to help themselves. Industry can only stimulate the employee to plan for his retirement and supply the necessary information which will aid him in the solution of problems related to retirement; no one can effectively plan for another individual's retirement.

In a recent survey[3] of employees nearing retirement, it was determined that 57 per cent of such employees are worried about money, but have done nothing to set up a financial plan. Of the employees surveyed, 54 per cent did not feel that Social Security and company pensions would provide them with personal independence. In this same survey, 54 per cent of the people expected their standard of living to be the same after retirement as before. Another recent economic survey of the Twentieth Century Fund states that nearly three fourths of Americans over 65 have annual incomes of less than $1,000. Two thirds of the people surveyed think that the income from Social Security and a company pension will be insufficient; however, 54 per cent say they could satisfy their minimum needs on one-half of their income before retirement.

Princeton's Public Opinion Index for Industry lists the following problems to be faced upon retirement:

1. Physical health
2. Psychological (mental adjustment)
3. Recreational and social

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1. A Survey of Major Problems and Solutions in the Field of the Aged and Aging, Committee on Labor and Public Welfare, U.S. Senate, Washington, D.C., 1959.

2. John Corson and John McConnell, Economic Needs of Older People, The Twentieth Century Fund, New York, 1956, Ch. 14.

3. Preparing Older Workers for Retirement, A Report of the Public Opinion Index for Industry, Princeton, New Jersey, 1956.

4. Education and travel, hobbies, keeping busy
5. Financial

    a. Social Security
    b. Company pension programs
    c. Deferred profit sharing
    d. Separation pay
    e. Personal savings and investments
    f. Part-time employment

6. Where to live

It is widely accepted that finances are the number-one concern of retired employees today. A major problem of the millions of older persons throughout the nation is how to maintain a decent, independent American standard of living on the income which is available upon retirement.

The National Survey of Old-Age and Survivors Insurance Beneficiaries published in 1957 by the U.S. Department of Health, Education and Welfare, revealed the following information:

1. Total money income to beneficiary couples averages $183 per month.
2. Of the men, 23 per cent had company pensions which average $66 per month.
3. Of the beneficiary couples, 65 per cent had less than $6 per month money income from assets.
4. Of the beneficiary couples, 35 per cent worked; 12 per cent earned $100 or more per month.
5. Of the couples, 6 per cent received public assistance; the average was $60 per month.
6. Five per cent received cash assistance from their families; the average was $25 per month.
7. Twenty-five per cent received assistance within the household in which they lived.

Developing a Concept of Income Adequacy

During the hundred years from 1860 to 1960 our concept of income adequacy has changed considerably. There have been changes in the nature, distribution and level of income; in the composition of families and in the manner of living; in the scientific knowledge and productive power of the nation; and in the social, economic and political relationships. All of these changes have caused variations in our standards of living which directly influence our concept of income adequacy.

In 1860, 80 per cent of our population lived in rural areas and income adequacy was related to a whole family unit. Caring for the aged at that time was considered a family problem.

By 1900, 40 per cent of the population lived in urban areas. The cost of living became more important a problem from many points of view. The subsistence concept of income adequacy included the minimum required to provide the necessaries of life -- food, shelter, clothing. Analysts were beginning to point to the needs for goods and services which satisfied psychological in addition to physical requirements. The Federal Government began to collect data on income, savings, expenditures, and living conditions. An attempt was made to determine minimum living costs.

In 1909, the U. S. Bureau of Labor prepared budgets describing a "minimum standard" which met minimum physical needs and a "fair standard" which provided for the "development and satisfaction of human attributes." There was general agreement that incomes should be adequate in order to provide some allowance for "comfort" in addition to food, shelter and clothing necessary for health and decency.

In 1923, there were four generally accepted standards of income:

1. the poverty level
2. minimum subsistence level
3. minimum health and decency level
4. comfort level

During the 1930's, the "social" concept of income adequacy was developed. The new theories stressed the importance of income and consumption to the economic health of the nation. Since World War II, budget standards described a level of living which meets the minimum standard "as determined by prevailing standards of what is needed for health, efficiency, social participation and the maintenance of self respect and the respect of others." Post-war "modest but adequate" budgets ranged from 30 per cent to 60 per cent higher than the "minimum comfort" budgets of the early 1920's.

The widespread changes in our manner of living and the way we finance it pose difficult questions in the derivation of satisfactory budget concepts. The shift to home ownership, suburban living, new standards of health, automobile ownership, emphasis on recreation, travel and hobbies have changed the values and the way we spend our current income. Most people agree that an adequate income should provide not only for the physical necessities of life, but also for the social and psychological needs of the individual or family. Primary emphasis, therefore, should be placed upon the development and maintenance of conditions under which workers may secure for themselves and their dependents a standard of living essential to their own well-being and the well-being of the community.

Spending Patterns of Older Persons

"Given the same amount of income as the young, the aged generally will spend that income in much the same way; therefore, their actual differences in spending are due to their low incomes and not just merely due to age."[4]

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4. Harold Sheppard, Research Director, Committee on Labor and Public Welfare, in a letter dated December 18, 1959.

A drop in income creates a problem only if it is not matched by a retrenchment of wants. A given amount of income might be adjudged plentiful by one person while the same amount of income would represent abject poverty to someone else.

The results of a study by the National Industrial Conference Board in 1959, "Spending Patterns of Older People," showed that older families do spend more than younger families of the same size at the same income levels for some goods and services. At all levels, more money is spent by older families for medical care and household operations, and at most levels more is spent for fuel. More was spent by the older group in the $5,000 to $6,000 income level. With the present boom in housing, however, younger people have in recent years undoubtedly been spending more than the older people.

Between $4,000 and $5,000 income, older people begin to spend more for transportation. Older people would spend still more if their income rose. With the development of new products and programs designed especially for older people, their spending patterns could very well increase in tempo.

Wayne Thompson and Gordon Streib in an article, "Situational Determinants: Health and Economic Deprivation in Retirement," in The Journal of Social Issues, 1958, state that the percentage of retirees that became deprived[5] increased from 8 per cent with incomes of over $200 per month to 44 per cent with incomes under $150 per month among "willing" retirees. The feeling of economic deprivation increased from 29 per cent with incomes over $200 per month to 52 per cent with incomes under $150 per month among "reluctant" retirees. These findings support the assumption that retired people curtail their spending as a matter of economic necessity rather than because of a lessening of wants. Wants tend to decline in old age as the need to provide for children is reduced or eliminated, but on the other hand, costs of medical and other needed services increase. If our older people had more money, they would be inclined to spend it.

Planning for Retirement

Successful planning and preparation for retirement require a sound knowledge of the basic needs in retirement plus those items which can be classified as comforts. Consideration must be given to financial security, living arrangements, health and retirement activities. Individuals need to evaluate these needs in the light of personal desires, ambitions and capacities to save. There is no single solution, no one prescription that meets the needs of all retirees. Planning and effort by the individual are fundamental in getting the most out of retirement. The job of financial preparation for retirement is an individual one, since views and desires

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5. "Economic deprivation" is based on ability to meet living expenses and the extent of worry about money matters.

as to financial needs are individual. The purpose of retirement planning programs should be to stimulate men to make their own plans for retirement rather than to tell them what they should do. Proper preparation and planning enhance the retiree's chances for successful retirement. Such responsibility is a joint responsibility of the individual, community agencies, and industry. Retired employees should enjoy an adequate and satisfactory standard of living which is related to that which they had while they were employed.

Dr. Eugene Friedman of the University of Wisconsin[6] recommends that the worker, prior to retirement, should appraise his worth and estimate his expenses:

"Know your worth" includes:

1. Personal possessions (house, car, furniture, other household goods, clothing, jewelry)
2. Cash reserves (cash in banks, cash value of life insurance)
3. Investments (government bonds, stocks, real estate)
4. Retirement income (Social Security, company pension annuities, dividends, interest)
5. Miscellaneous rights, benefits and privileges
6. Death benefits (Social Security, veterans' burial allowances, life insurance)

"Know your expenses" includes:

1. Housing (rent or taxes, insurance, maintenance and upkeep)
2. Food
3. Clothing
4. Automobile (operation and upkeep)
5. Utilities (heat, electricity /gas, telephone, water)
6. Medical expenses, health insurance
    a. Emphasis on prevention of illness
    b. Adequate coverage of hospital costs
    c. Treatment and rehabilitation
    d. Includes coverage of expensive drugs
7. Personal expenses
8. Recreation, travel and hobbies
9. Contributions

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6. Eugene Friedman, Retirement -- A New Way of Life, University of Wisconsin, Madison, Wisconsin, 1956.

The idea of planning an estate in preparation for retirement should embrace the creation and conservation of property as well as the disposition of it. Anyone who ignores the first two aspects of planning an estate may have little or no need to be concerned about the third. Most estate plans are geared to thoughts of death rather than to the thought of income in retirement. Family financial planning is the arrangement of one's financial affairs so as to derive the maximum benefit and enjoyment out of both income and principal. This suggests that appropriate methods of planning will vary according to age, status and circumstances of each individual. Of particular significance is the fact that approximately $2 out of $3 of income for people over 65 is the result of voluntary decision and action -- employment, individual savings and investment programs, home ownership, insured and non-insured pension plans and annuities. Thus, with all the expansion of benefits under Government-sponsored programs in recent years, the importance of the individual's own preparation for the financial needs of later life stands out clearly, especially with respect to savings and spending decisions during productive years.

The Program for Old-Age Security recommended by the Twentieth Century Fund Committee on Old-Age Security includes the responsibility of the individual, employer and the Government.

1. Each individual has the responsibility -- as a right and a duty -- of making whatever contribution he can toward his own support and that of his family.
2. The individual should not be denied the opportunity to earn and the incentive to live.
3. Employers should provide opportunity for productive employment of older people who can and want to work.
4. Private pension plans should be encouraged where the economic position of the employer and the employee permit.
5. The government must play a basic role in providing for the well-being of older people -- Social Security, control of inflation, tax advantages to encourage savings and care of the indigent.

Former President Hoover once said, "Out of savings, individuals must provide for their own security." Mrs. Frances Pettingill, at a National Conference on Aging, speaking for older people, said "What we want is money enough to pay our own bills and a chance to earn it, not have it given to us. All this talk about finding creative hobbies for old people is nonsense. Let us earn our way and we'll find our own hobbies." Few people find retirement the idyllic period of carefree leisure they contemplated, with days devoted to fishing, reading, the pursuit of hobbies, and playing with grandchildren.

President Eisenhower in his report to Congress on January 20, 1958, said, "All responsible citizens share the feeling that elimination of the remaining poverty in America would not only bring greater happiness and opportunity to these older people, but it would draw them into the stream

of progress, enlarge markets for consumer goods and promote expansion of the economy."

Developing Budget Standards -- The Bureau of Labor Statistics

The Bureau of Labor Statistics has developed a budget for an elderly couple which can be used as a good basis upon which to develop individually-tailored retirement plans. The "budget family" consists of a retired husband and wife approximately 65 years old, who maintain their own two- or three-room rented dwelling and who are able to get about and take care of themselves. The family does not own an automobile. Such a family is typical of many of those now receiving old-age retirement benefits and includes many families potentially eligible for old-age assistance.

The elderly couple's budget was designed to represent a level of living which provides the goods and services necessary to maintain health and allow normal participation in community life in accordance with current American standards. The level of living described is not luxurious, but is sufficiently adequate to provide for more than the basic essentials of consumption.

Prices of about seventy items were used to obtain the October, 1950, cost estimates of an elderly couple's budget. The estimates made by the Bureau of Labor Statistics were based on a short-cut procedure designed to yield reliable estimates of the total cost of the budget rather than of the separate categories of items. Tests conducted by the Bureau have indicated that there was no consistent upward or downward bias in the cost estimates.

The seventy items used as a basis for computing the Elderly Couple's Budget are consistent with the items which provide the basis for the Consumer Price Index, which is also prepared by the U.S. Bureau of Labor Statistics (1947-1949 = 100). Table I, "Consumer Price Index," gives the Bureau's Consumer Price Index in table form for the years 1950 through 1960. All items and the basic sub-classifications of food, housing, clothing, transportation, medical care, personal care, reading and recreation, and other goods and services are presented at this time in order to help understand the impact of changes in prices between classifications as well as from year to year.

The dollar cost of the Elderly Couple's total budget was $1,908 in October, 1950, for the City of Milwaukee. The Consumer Price Index has risen from 102.8 in 1950 to 125.4 in 1960, or a 22 per cent increase. Applying the 22 per cent to the $1,908 gives an annual figure of $2,328 or $194 per month for an Elderly Couple's Budget in the City of Milwaukee-Racine area for 1960.

The Bureau of Labor Statistics, in referring to its Budget for an Elderly Couple in 1950, described a "modest but adequate" level of living as follows:

TABLE I

CONSUMER PRICE INDEX

U.S. Bureau of Labor Statistics (1947-1949 = 100)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
All Items	102.8	111.0	113.5	114.4	114.8	114.5	116.2	120.2	123.5	124.6	125.4
Food	101.2	112.6	114.6	112.8	112.6	110.9	111.7	115.4	120.3	118.3	117.6
Housing	106.1	112.4	114.6	117.7	119.1	120.0	121.7	125.6	127.7	129.2	130.7
Clothing	98.1	106.9	105.8	104.8	104.3	103.7	105.5	106.9	107.0	107.9	107.9
Transportation	111.3	118.4	126.2	129.7	128.0	126.4	128.7	136.0	140.5	146.3	148.1
Medical Care	106.0	111.1	117.2	121.3	125.2	128.0	132.6	138.0	144.6	150.8	153.5
Personal Care	101.1	110.5	111.7	112.8	113.4	115.3	120.0	124.4	128.6	131.2	132.7
Reading/Recreation	103.4	106.5	107.0	108.0	107.0	106.6	108.1	112.2	116.7	118.6	120.3
Other Goods and Services	105.2	109.7	115.4	118.2	120.1	120.2	122.0	125.5	127.2	129.7	131.8

The Consumer Price Index is based on a "market basket" of goods and sevices which represent the average purchases of all types of goods and services by all sizes and types of wage and clerical worker families. It is a measure of price changes prepared monthly by the Bureau of Labor Statistics and is used to bring budgets "up to date."

> When it is said that the budget recommended is intended to cover the necessary minimum, "necessary" is to be given the common interpretation as including what will meet the conventional and social as well as biological needs. It represents what men commonly expect to enjoy, feel that they have lost status and are experiencing privation if they cannot enjoy, and what they insist upon having. Such a budget is not an absolute and unchanging thing. The prevailing judgment of the necessary will vary with the changing values of the community, with the advance of scientific knowledge of human needs, and with the productive power of the community and therefore what people commonly enjoy and see others enjoy. [7]

The Bureau of Labor Statistics has not issued current 1961 estimates of the costs of the Elderly Couple's Budget, because these quantity budgets were based on standards prevailing before World War II and are not representative of post-war standards. The Bureau is currently gathering data with which to develop revised quantity budgets. This information will not be available until late 1961.

There is a continuing need, from the national to the local level, for research designed to define program goals clearly; to decide the conceptual level of living consistent with these goals; to determine the cost of the specified living standards and to appraise the needs and resources of individuals and families in relation to the needs and resources of the economy. As efforts continue in this area and as individuals, industry and Government cooperate in planning for retirement, many of the problems raised in this study will tend to be solved.

A Family Budget Standard, New York City

The elderly couple in the Family Budget Standard for New York City lives in a rented apartment with four rooms. The dwelling is equipped with hot and cold running water, central heat, electric lights, gas or electric stove and a refrigerator. The husband and wife must travel by public transportation. The customary modern conveniences of washing machine, iron and vacuum cleaner are part of the standard. Additional housing expenses include utilities, supplies of soap and cleaning materials, and the occasional purchase of furniture, sheets, towels, and so forth, needed to maintain household inventories.

The food budget is consistent with nutritional standards designed to provide adequate nutrition at low cost. Clothing purchases fill average requirements for inventory replacement. Barber and beauty shop services are virtually limited to haircuts and home permanent wave kits. Medical care allows for four or five calls to a doctor's office and two dental services a year. Blue Cross Hospitalization is included in these costs. Other needs are included in the total cost.

The couple owns a radio, buys a daily newspaper and a few magazines. Expenditures for movies and other paid admissions are included and could be substituted by television. Tobacco purchases allow for

three to four packages of cigarettes a week. Communications are limited to a party-line telephone, a few personal letters and greeting cards. A modest life insurance policy is considered essential for private burial. Contributions for church and charity are reduced to a typical percentage of total expenditure. Savings are not included in this budget.

Estimated weekly costs of the items contained in the budget standard in October, 1954, are as follows:8

Food			$ 13.14
Clothing			2.60
Housing:			
	Rent and heat	$10.85	
	Utilities	1.45	
	House furnishings	1.30	
	Laundry, cleaning	1.20	
			14.80
Transportation			1.00
Medical Care			3.00
Personal Care			.80
Other Goods and Services:			
	Recreation, education, communications, tobacco	$3.45	
	Life insurance	1.10	
	Gifts, contributions	1.20	
			5.75
TOTAL		Week	$ 41.09
		Month	$ 178.00
		Year	$2,137.00

<u>Development of a Family Budget Standard -- Milwaukee-Racine Area</u>

The estimated costs of the Budget Standard for a Retired Couple in New York City are shown in Table II. The 1954 figures are taken directly from the Family Budget Standard as developed by the Research Department of the Welfare and Health Council of New York City. By comparing the 1954 Consumer Price Index (114) with the 1960 Consumer Price Index (125) as shown in Table I, we find the 10 per cent cost of living increase reflected in the 1960 figures. The Family Budget Standard has increased from $178 per month in 1954 to $195 per month in 1960 for an elderly couple in New York City.

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8. <u>A Family Budget Standard</u>, Research Department, Welfare and Health Council of New York City, New York, 1955.

TABLE II

ESTIMATED COSTS OF THE BUDGET STANDARD
FOR A RETIRED COUPLE
IN NEW YORK CITY (1954 AND 1960)
AND IN THE MILWAUKEE-RACINE AREA (1960)

	New York City		Milwaukee-Racine Area
	1954*	1960	1960**
Consumer Price Index***	(114)	(125)	
Housing (Rent, including heat)	$ 47.00	$ 51.50	
(Own home, $15,000)			$ 45.00
Food	57.00	62.50	60.00
Clothing	11.25	12.25	15.00
Utilities	6.25	6.85	
Heat			15.00
Electricity or gas			10.00
Telephone			5.00
House Furnishings	5.60	6.15	10.00
Laundry, cleaning and supplies	5.15	5.60	5.00
Transportation (Public)	4.35	4.75	
(Own automobile)			20.00**
Medical and Dental Care	13.00	14.25	10.00**
Personal (Barber, beauty parlor, cosmetics, bathroom supplies)	3.50	3.80	7.00
Recreation (Entertainment, tobacco and beverages)	15.00	16.50	15.00
Life Insurance	4.75	5.25	
($5,000 at age 30)			8.00
Contributions and Gifts	5.15	5.60	5.00
TOTAL MONTHLY BUDGET	$178.00	$195.00	$230.00

* Source: Research Department, Welfare and Health Council, New York City.

** This budget is a composite of interview results with the Racine Welfare Department, Racine Social Security Office, application of local prices to budget items, and the personal knowledge and experience of the author.

*** Bureau of Labor Statistics Consumer Price Index based on 1947-1949.

**** Considers Comprehensive Medical Insurance effective May 1, 1960.

In October, 1950, the estimated cost of the Elderly Couple's Budget as prepared by the Bureau of Labor Statistics was $1,908 in Milwaukee and $1,782 in New York. Between November, 1950, and November, 1957, the Consumer Price Index rose 16 per cent in Milwaukee and 13.3 per cent in New York. Application of the change in the index for each city to the respective budgets provides an estimate in November, 1957, of $2,213 in Milwaukee and $2,019 in New York. By rough calculation, therefore, the budget costs for an elderly couple are estimated to be approximately 10 per cent higher in Milwaukee than in New York City. Application of this 10 per cent differential in cost of living between the two cities to the 1960 Budget Standard for New York City gives a monthly budget of $214 for the City of Milwaukee. The Elderly Couple's budget computed by the Bureau of Labor Statistics estimated a monthly cost of $194 per month for the City of Milwaukee. A breakdown of the components of the Elderly Couple's budget is not available through the Bureau; by comparing the descriptions of the two budgets, however, it is reasonable to say that the New York City's budget and its application to Milwaukee ($214) is the more acceptable figure in the light of income adequacy as previously defined.

In order to arrive at a budget objective for the Milwaukee-Racine area, consideration has been given to the probability of home and automobile ownership and current rates for utilities. On these bases, a monthly budget figure of $230 per month seems reasonable and just. Included in Table II, therefore, is a breakdown for 1960 by expense classifications for a retired couple in the Milwaukee-Racine area. These amounts should serve as a guide, with the expectation that the individual would, through careful planning, be able to provide for the extras that he hopes to experience upon retirement. Where imbalance exists between the value of the home and automobile with retirement income, it will be necessary for the individual to be satisfied with a less costly home and automobile. This partial liquidation would not only reduce costs, but would provide funds for other purposes.

Conclusion

This study of the problems facing retired employees, with emphasis on the financial problem and the development of a budget for retirement, has generated the following conclusions:

Planning for financial security after retirement is basically the individual's responsibility. It is necessary that formal programs for cooperative planning for retirement be established with emphasis on financial security. Although serious problems do exist, financial needs upon retirement can be determined in advance and, through proper planning, can be met successfully. The formal retirement planning program should begin early -- at age forty -- so that the employee has sufficient time to fulfill his financial obligations for raising his family and saving for his retirement.

EVENING SEMINARS

Fall Semester, 1961

INSTITUTE ON FINANCIAL MANAGEMENT FOR RESTAURANTS

Co-Sponsor: Wisconsin Restaurant Association
Director: Harvey E. Hohl, Acting Director,
Center for Business Services, Marquette University
12 weeks beginning Monday, September 11, 7:30 to 10:00 p.m.

Determining the Capital Requirements; Choosing Your Form of Organization; Securing Adequate Financing; Selecting the Location; Building the Restaurant; Purchasing Equipment; Hiring Employees; Obtaining Supplies; Providing for Taxes and Insurance; Obtaining and Granting Credit; Maintaining Records; Controlling Expenditures.

INSTITUTE ON COMMERCIAL FINANCING AND FACTORING

Co-Sponsor: National Commercial Finance Conference, Inc.
Director: Gerald Nickoll, President of Civic Finance Corporation, Milwaukee, Wisconsin
13 weeks beginning Tuesday, September 19, 6:20 to 8:00 p.m.

History of Commercial Financing; Role of Commercial Financing in the Economy; Accounts Receivable Financing; Old Line Factoring; Inventory Financing; Financing of Machinery and Equipment; Installment Sales Financing; Import and Export Financing.

CAPSULE SEMINAR ON GENERAL BUSINESS

Co-Sponsors: Milwaukee Traffic Club, Milwaukee Transportation Club, Wisconsin Chapter of Interstate Commerce Practitioners
Director: Harvey E. Hohl, Acting Director,
Center for Business Services, Marquette University
15 weeks beginning Wednesday, September 13, 6:45 to 9:45 p.m.

Economic Principles: The Foundation of Economics; Supply and Demand for Goods; The Determination of Prices; The Use of Money and Credit; Production of Goods and Services; Distribution of Income and Wealth; Processing of Economic Goods; Influence of the Government.

Business Organization: The United States Economy; Growth of Industry; The Forms of Business Ownership; The Corporation; Planning in Business; The Corporate Organization; Controlling the Business Organization.

MATERIAL DISTRIBUTION AND HANDLING

Co-Sponsor: Wisconsin Chapter, American Material Handling Society
Director: Joseph G. Atwood, Assistant Professor,
Production and Personnel Management, Marquette University
12 weeks beginning Thursday, September 14, 6:45 to 9:25 p.m.

Basic Principles: Over-all Problems, Plant Layout and Operation; Warehousing and Indoor Storage; Outdoor Storage, Packages and Unit Loads; Shipping, Receiving, and Handling Special Shapes.

Equipment Selection and Application: Industrial Trucks and Tractors; Nonpowered Equipment, Conveyors and Conveying Equipment; Cranes, Hoists, and Monorails, Yard Handling and Equipment; Packages, Containers, and New Ideas for Storing and Shipping.

Mechanization and Automation: Concept of Mechanization and Automation Transfer and Handling Ideas; Equipment Application, Warehousing and Shipping Function; Continuous Handling of Bulk; interplant Communications and Course Summary.

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For full information regarding these Seminars, write to the Center for Business Services, College of Business Administration, Marquette University, Milwaukee 3, Wisconsin; or call DIvision 4-1000, Extension 330 or 331.